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Report

drawn up on behalf of the Committee on External Economic Relations

on the draft Regulation of the Council of the European Communities

(Doc. 56/77) concluding an Additional Protocol to the Agreement between the
European Economic Community and the State of Israel and a Financial Protocol

Rapporteur: Mr M. MARTINELLI

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PE 47.234/fin.

By letter of 17 February 1977 the President of the Council of the European Communities requested the European Parliament, pursuant to Article 238 of the EEC Treaty, to deliver an opinion on the Additional Protocol to the Agreement of 11 May 1975 between the European Economic Community and the State of Israel and the Financial Protocol.

The President of the European Parliament referred this draft Regulation to the Committee on External Economic Relations as the committee responsible and to the Political Affairs Committee and the Committee on Agriculture for their opinions.

On 30 November 1976, the Committee on External Economic Relations appointed Mr Martinelli rapporteur.

It considered this draft Regulation at its meeting of 30 March 1977 and adopted the motion for a resolution and the explanatory statement by 8 votes to 1.

Present: Mr Scott-Hopkins, vice-chairman and acting chairman; Mr Martinelli, rapporteur; Mr Van Aerssen, Lord Brimelow, Mr Didier, Mr De Koning, Mr Laban, Mr Pucci and Mr Spicer.

The opinions of the Political Affairs Committee and the Committee on Agriculture are attached.

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A.

The Committee on External Economic Relations hereby submits to the European Parliament the following motion for a resolution, together with explanatory statement :

MOTION FOR A RESOLUTION

embodying the opinion of the European Parliament on the draft regulation of the Council of the European Communities concluding an Additional Protocol to the Agreement between the European Economic Community and the State of Israel, and a Financial Protocol

The European Parliament,

- having been consulted by the Council pursuant to Article 238 of the EEC Treaty (Doc. 56/77),
 - having regard to its resolution of 18 December 1975¹ on the Agreement between the European Economic Community and the State of Israel, signed on 11 May 1975²,
 - having regard to the visit of a delegation from the European Parliament, headed by President SPENALE, to Israel from 2-5 November 1976,
 - having regard to the report of the Committee on External Economic Relations and the opinions of the Political Affairs Committee and the Committee on Agriculture (Doc. 67/77),
1. Welcomes the Additional Protocol and the Financial Protocol and notes with satisfaction that their signature marks the fulfilment of recommendations expressed in its resolution of 18 December 1975;
 2. Approves the content of the Additional Protocol and the Financial Protocol;
 3. Expects that the cooperation between the Community and Israel mentioned as an objective in the Protocols will now be given concrete form and requests the Commission to keep it informed of the progress made;
 4. Points to the mutual interest of both Israel and the Community in exchanging technological knowledge in the agricultural and industrial spheres;
 5. Asks the Cooperation Council referred to in the Additional Protocol to work within the context of confirmed investment possibilities in Israel;
 6. Supports Israel's request that the Commission establish a permanent delegation in that country;

¹ OJ No. C 7, 12.1.1976, p.35

² OJ No. L 136, 28.5.1975

7. Reaffirms the opinion expressed in its resolution of 18 December 1975 concerning the desirability of establishing regular contacts between its members and those of the Israeli Parliament and welcomes the provisions of the Additional Protocol which will facilitate such contacts;
8. Opposes unequivocally any boycott from whatever quarter against firms having business contacts with Israel;
9. Regrets that signature of the Protocols with Israel and of the Cooperation Agreements with Egypt, Jordan and Syria did not take place in those countries as was originally intended;
10. Points out that the Community can help to reduce tension in the Mediterranean area by establishing closer ties with Israel and the Arab countries, particularly in the economic field.

EXPLANATORY STATEMENT¹I. INTRODUCTION

1. The negotiations between an Israeli delegation and a delegation from the Community which began on 29 October 1976 on the conclusion of an Additional Protocol to the Agreement between the EEC and the State of Israel concluded on 11 May 1975² and a Financial Protocol ended on 9 November 1976. The signing of the protocols took place in Brussels on 8 February 1977.
2. The purpose of the Additional Protocol is to widen and strengthen the cooperation achieved on the basis of the Agreement of 11 May 1975. It specifies areas to which this cooperation is to be extended, the most important being the industrialization of Israel. The Financial Protocol states that the European Investment Bank will make available to Israel up to 30 m EUA.
3. On 18 December 1975 the European Parliament adopted a resolution on the Agreement of 11 May 1975 on the basis of the PATIJN report³. The text of this resolution is annexed to the present report; it urges the Council to take an early decision on the Commission's recommendation to conclude an Additional Protocol with Israel concerning economic and financial cooperation between the two parties.

II. CONTENT OF THE PROTOCOLSAdditional Protocol

4. This protocol is concerned with economic, technical and financial cooperation between the Community and Israel (Title I).
The aim of this cooperation is twofold:
 - (a) the development of Israel;
 - (b) the harmonious development of economic relations between the Community and Israel (Article 2).

¹ In his discussion of the Protocols, your rapporteur has taken as a basis the relevant Commission communication to the Council (COM(76) 608 final)

² OJ No L 136, 28.5.1975

³ OJ No C 7, 12.1.1976, p. 35; Doc. 422/75

5. The protocol sets out these objectives in greater detail. They are to encourage:

- (i) the industrialization of Israel;
- (ii) Israeli exports;
- (iii) industrial cooperation ~~between~~ the contracting parties through inter alia the following measures:
 - implementation of Israel's industrial development programmes;
 - contacts between prominent figures in the industrial sphere;
 - access to technological know-how;
 - elimination of non-tariff and non-quota barriers to trade;
 - cooperation in the agricultural and fishery sectors;
 - encouragement of private investment;
 - exchanges of information on the economic and financial situation;
 - cooperation in the fields of science and technology and environmental protection (Article 4(1)).

6. This list is not exhaustive. Cooperation may be extended to other areas (Article 4(2)). This fits in well with the growth clause (Article 26) of the Agreement of 11 May 1975, which establishes the evolution character of the agreement. Broader economic cooperation along the lines proposed in this Additional Protocol had already been anticipated by the inclusion of the 'growth clause' in the Agreement of 11 May 1975, which deals exclusively with the commercial aspect.¹

7. It is further laid down that the contracting parties shall facilitate the proper performance of cooperation and investment contracts (Article 7). This stipulation provides a basis for close cooperation between government and business sector.

The Additional Protocol also makes reference to the Financial Protocol: the Community shall participate in the financing of measures such as may promote the development of Israel under the conditions laid down in that protocol (Article 6).

8. The body charged with seeking ways and means of putting cooperation into effect is the 'Cooperation Council' which shall meet periodically (Article 5). The Cooperation Council replaces the Joint Committee of the Agreement of 11 May 1975 (Article 9(1)). It has a different composition from the latter insofar as, under the Additional Protocol, the Cooperation Council is to be composed not only of representatives of the Community (and of Israel) but also of representatives of the Member States (Article 11).

¹ The Agreements which the Community concluded with the member states of the European Free Trade Association incorporated similar clauses

The Council shall have decision-making powers and its decisions shall be binding on the contracting parties. It may also adopt resolutions, make recommendations or issue opinions (Article 10). Furthermore, it may set up any committee that can assist it in carrying out its duties and shall determine the composition and terms of reference of such committees (Article 12). In its composition and powers it is identical to that set up for the Mashreq countries but different from the specially instituted 'Council of Ministers' provided for in the Maghreb Agreements, where only members of the Council and Commission represent the Community.

Finally, the Cooperation Council shall take any appropriate measures to facilitate cooperation and necessary contacts between the European Parliament and the Kneset. This fulfils one of the European Parliament's principal wishes¹. Such contacts were recommended in both the European Parliament's resolution of 18 December 1975 and in the note by the President of the Parliament on the outcome of the visit by a Delegation to Israel in November 1976² and they could make an important contribution to the implementation of the EEC/Israel Agreement and to the development of relations between the two partners.

Financial Protocol

9. The Community is to participate, within the framework of financial cooperation, in the financing of projects designed to contribute to the economic development of Israel (Article 1). Financial cooperation will be exclusively in the form of EIB loans under normal conditions of up to a maximum of 30 million EUA. The Community shall ask the European Investment Bank (EIB) to make these funds available to Israel (Article 2 (1)). In contrast with the Financial Protocols with the Mashreq countries, this protocol does not provide for any other form of financial cooperation with Israel such as loans with interest subsidies from the EIB, special loans or gifts. In allocating financial aid, the Community has taken account inter alia of the annual gross national product per capita. This is approximately \$3,000 for Israel, while it has been estimated that Syria's is \$380 and Egypt's \$250.

Israel considers 30m EUA - the amount set aside for financial cooperation - distinctly inadequate, since no account is thereby taken of its considerable trade deficit with the Community. This was made clear in the declaration made recently by Mr Allon, the Minister for Foreign Affairs, when the Protocols were signed in Brussels.

10. The projects eligible for financing are those helping to increase productivity and to achieve complementarity between the two economies and promoting in particular the industrialization of Israel. The Bank shall examine projects submitted to it with a view to the granting of loans in accordance with the rules laid down in its Statute. The conditions governing the repayment

¹ See para. 7 of the resolution of 18.12.1975 annexed to this report

² See Annex IV

of each loan shall be established on the basis of the economic and financial characteristics of the project to be financed. Loans will carry the same rate of interest as that applied by the Bank on the day of signature of the loan agreement (Article 2(2) and (3)).

11. Israel shall be responsible for the execution, management and maintenance of these projects. The EIB shall make sure that its financial aid is utilized in the correct way (Article 5). A loan to state or private companies may be made dependent on the provision of a guarantee by the State of Israel (Article 7). The Bank shall decide whether the guarantee is to be required from the State or another institution. In addition, Israel shall undertake to make available to debtors the foreign currency necessary for the payment of interest and the repayment of capital for the duration of the loans (Article 9).

Natural or legal persons of Israel and of the Member States may participate on equal terms in tendering procedures and other procedures regarding projects to be financed by the EIB (Article 8).

The results of financial cooperation may be examined within the Cooperation Council (Article 10).

General provisions

12. The Additional Protocol and the Financial Protocol both form an integral part of the Agreement of 11 May 1975 (Article 11) (the anti-discrimination provision of the Agreement therefore applies automatically to both protocols)¹. They have to be ratified in accordance with the procedures required by the Community, the Member States and Israel and shall enter into force on the first day of the second month after the parties have been notified that this ratification has taken place (Article 13).

The regulation concluding these two protocols is based on Article 238 of the EEC Treaty which requires consultation with the European Parliament.

13. On signing the protocols the contracting parties shall also, by means of a Final Act, adopt or formally take note of a number of declarations and exchanges of letters all of which are annexed to the Final Act. These are:

¹It should be recalled here that the European Parliament attaches great importance to the inclusion of an anti-discrimination provision in Agreements concluded by the Community with third countries, witness paragraph 6 of the Resolution of December 1975 (see Annex III to this report).

- the Joint Declaration on the concept of 'Contracting Parties';
- the Declaration by the European Economic Community on the European unit of account referred to in Article 2 of the Financial Protocol;
- the Declaration by the Representative of the Government of the Federal Republic of Germany on the application of the Additional Protocol and the Financial Protocol to Berlin;
- the Declaration by the Representative of the Government of the Federal Republic of Germany on the definition of the expression 'German National';
- the Exchange of Letters on the implementation of the Additional Protocol before its entry into force in respect of economic and financial cooperation;
- the Exchange of Letters on scientific and technological cooperation.

III. COMMENTS

Importance of the protocols to Israel

14. Mr Patijn, in his report mentioned above, noted that the Agreement of 11 May 1975 would have a favourable affect on Israel's balance of trade with the Community, which is very much in deficit¹. It should here be recalled that the Agreement of 11 May 1975 laid down that customs duties and charges having equivalent effect on industrial goods imported into the Community from Israel were to be abolished in three stages, the whole process to be completed on 1 July 1977. This means that, as from that date, the Community will no longer be able to impose duties on these products.

In the last two years, Israel's total exports appear to have increased considerably (despite the fact that Israeli industry has to import practically all its raw materials; 99% of all energy is imported), and the trade deficit is expected to be further reduced in 1977². Yet, despite this trend, Israel still has a considerable trade deficit with the Community.

15. Israel's industrial development faces certain special difficulties such as:

- a shortage of raw materials,
- a limited internal market (population under four million),
- the impossibility of trading with its nearest neighbours,
- the effects of the Arab boycott.

¹ See Annexes I and II to this report

² Your rapporteur is not yet in possession of the exact figures for 1976

On the other hand, Israel possesses a technologically and scientifically trained work force and a high degree of development has been achieved in the agricultural sector. In addition, the country - situated between the three continents of Europe, Africa and Asia - is geographically well placed for trade.

16. Israel's most important economic priority at the moment is to increase the total value of its exports. This requires further growth by industry and is certainly possible despite the shortage of investment capital. Industrial production has risen by 12% per year since 1968. Agriculture accounts for no more than 6% of the GNP and in fact can only be further developed by research activities. Most of the land has already been brought under cultivation and all water sources have been tapped. Israel is in fact a net importer of food.
17. It is clear that technological and financial stimuli from Europe will encourage the development and growth of Israeli industry and that this will increase the value of its exports. The Additional Protocol and the Financial Protocol represent the first impulse in this direction. One of the first tasks of the Cooperation Council ought therefore to be to investigate investment potential in Israel.
18. Finally, the making of foreign private investment in Israel is certainly not made any easier by the Arab boycott on firms trading with Israel. The Committee on External Economic Relations is unreservedly opposed to this boycott, because, for one thing, it indirectly restricts world trade and causes improper interference with the free market mechanism. Moreover, such a boycott scares off potential investors, even though it has been shown that countries and undertakings which defy the boycott are still able to trade with the Arab world.

The Financial Protocol's period of validity

19. When the protocols were initialled on 9 November 1976, one point remained outstanding. Israel - in common with the three Mashreq countries (Egypt, Jordan and Syria) - could not agree to the Community's proposal that the Financial Protocol should be valid for five years from its entry into force. The Israeli delegation favoured a period of three years from the date of signature. The purpose of this was clear: they wanted the loans to be available as quickly as possible and the period over which the loans are extended to be as short as possible in order to allow a larger amount to be drawn each year. Attention should be drawn here to Article 3, which states that the amounts to be taken up each year must be distributed as evenly as possible over the whole period of application of the protocol.

20. On 15 November the Community (the Council) changed its position and proposed to Israel - and the three Mashreq countries - that the Financial Protocol should expire on 31 October 1981. A similar arrangement was meanwhile reached with the three Maghreb countries (Algeria, Morocco and Tunisia). This proposal is a compromise between the original positions of the Community and Israel. It means that a period of validity of approximately five years after signature is laid down for the Financial Protocol, although, in practice, this period will be much shorter than five years because the ratification procedure is certain to take several months.

Israel finally accepted this formula and it also has the support of the Committee for External Economic Relations.

Permanent Commission delegation in Israel

21. In the present communication, the Commission informs the Council that during their negotiations the Israeli delegation formally requested that a Commission delegation be established in Israel. It would be the delegation's task to set in train the economic cooperation provided for in the Agreement of 11 May 1975 and the Additional Protocol thereto, and also to facilitate management of the amounts made available by the EIB as financial cooperation. Egypt, Jordan and Syria have made similar requests.
22. The Committee on External Economic Relations would be glad if this request could be granted. A permanent delegation in situ would not only ensure that cooperation proceeded more smoothly but it could also help gradually to intensify it - a development which, in the framework of the general Mediterranean policy, can only be welcomed. It may be recalled that a Commission delegation was established in Canada when the latter's cooperation agreement with the Community came into force.¹

IV. CONCLUSIONS

23. Implementation of the Additional Protocol and the Financial Protocol will to a considerable extent fulfil the wishes of the European Parliament as expressed in its resolution of 18 December 1975.² This applies in particular to:

¹ At present, there are Commission delegations in Geneva, Washington, New York, Ottawa, Santiago de Chile and Tokyo.

² See Annex III to this report

- paragraphs 2 and 3 : the wish for an expansion of relations between the Community and Israel, in particular by arranging economic and financial cooperation between the two parties;
- paragraph 5 : the wish that cooperation agreements be signed with the Maghreb and Mashreq countries, which has in the meantime been effected;
- paragraph 7 : the wish to establish contacts between the European Parliament and the Knesset, which should be facilitated by the Cooperation Council.

This is gratifying, but it does not mean that relations with these countries have now been fully developed. It is now required that these agreements be properly implemented and cooperation to be put into practice. The establishment of a permanent delegation in Israel would certainly further these objectives.

24. Your rapporteur would further like to comment on the conclusions contained in the opinion of the Committee on Agriculture relating to the Agreement of 11 May 1975. Reference is there made to the high standards achieved by Israel in developing techniques to improve the agricultural infrastructure and agricultural methods adapted to the Mediterranean climate.

In view of the comparable climatological conditions and the importance of agriculture in the southern part of the Community, cooperation in this sector could prove of great value to both parties.

25. It must, however, be regretted that the signing of the present Protocols - on 8 February 1977 - and of the cooperation agreements with the Mashreq countries - on 18 January 1977 - did not, as had originally been planned, take place in the capitals of the countries concerned on the occasion of a lightning tour undertaken by the Community's representatives through these countries. Apart from technical reasons, politically inspired motives - not on the Community's part - clearly played a part here. Had the signature ceremonies in respect of these agreements taken place as originally intended, a certain symbolic value could have been attached to this circumstance.

For it should not be forgotten that the strengthening of ties, particularly economic ones, between the Community and both Israel and the Arab countries is Europe's contribution to the reduction of tension in that part of the world.

ANNEX IISRAELI EXPORTS TO THE COMMUNITY(in \$000,000 f.o.b.)(January - September 1975/76)¹

	INDUSTRY		AGRICULTURE		TOTAL	
	1975	1976	1975	1976	1975	1976
Italy	32.1	43.5	9.1	13.2	41.2	56.7
Ireland	2.5	1.1	-	-	2.5	1.1
Belgium	54.5	58.2	7.3	7.6	61.8	65.8
Federal Republic	78.1	93.0	38.7	52.8	116.8	145.8
Denmark	5.1	6.4	3.2	3.2	8.3	9.6
Netherlands	86.1	101.0	11.1	12.6	97.2	113.6
UK	87.1	97.5	40.3	38.6	127.4	136.1
Luxembourg	0.5	3.3	-	-	0.5	3.3
France	47.8	59.1	25.4	32.0	73.2	91.1
EEC ²	393.8	463.1	135.1	160.0	528.9	623.1
World	1205.3	1721.8	209.5	262.3	1414.8	1984.1

¹ Source: Israeli Ministry of Trade and Industry

² In 1975, Israel exported to the Nine goods to the total value of \$723,000,000, which constituted 37% of its total exports

ISRAELI IMPORTS FROM THE COMMUNITY

(in \$000,000 c.i.f.)

(January - August 1975/76)¹

	<u>1975</u>	<u>1976</u>
Italy	111.141	110.164
Ireland	6.325	3.882
Belgium	87.495	74.533
Federal Republic	424.333	279.994
Denmark	8.933	10.770
Netherlands	102.628	130.327
UK	439.667	470.939
Luxembourg	421	635
France	82.879	84.246
EEC ²	1263.822	1165.490
World	2765.400	2669.400

¹ Source: Israeli Ministry of Trade and Industry
(Unlike the previous table, this table does not distinguish between industrial and agricultural products)

² In 1975, Israeli imports from the Community amounted to approx. 50% of its total imports

RESOLUTION

on the Agreement between the European Economic Community and the State of Israel signed on 11 May 1975^{*}

The European Parliament

- having regard to the signing of an Agreement between the European Economic Community and the State of Israel¹,
- having regard to the fact that the Agreement came into force on 1 July 1975,
- having regard to its resolution of 14 May 1975 on this Agreement²,
- having regard to the report of the Committee on External Economic Relations and the Opinions of the Political Affairs Committee, the Committee on Agriculture and the Associations-Committee (Doc. 422/75),

1. Notes with satisfaction the entry into force of the Agreement between the European Economic Community and the State of Israel;
2. Expresses the opinion that through the 'growth clause' in the Agreement³ a real expansion of relations between the Community and the State of Israel must be rapidly attained;
3. Requests the Council in this connection to take an early decision on the Commission's recommendation to conclude in due course an Additional Protocol with Israel on economic and financial cooperation between the two parties;
4. Points again to the fact that this Agreement indicates the Community's firm resolve to establish closer links with the Mediterranean countries;
5. Hopes therefore that the Association Agreements between the European Economic Community and Algeria, Morocco and Tunisia will be signed at an early date and that the Council will shortly give the Commission a mandate to open negotiations with Egypt, Jordan, Lebanon and Syria with a view to concluding (new) preferential trade agreements comparable to this Agreement;
6. Is gratified to note that this Agreement contains a provision whereby the parties agree not to discriminate between the contracting States, their nationals or their companies or firms⁴, and trusts that an identical provision will be included in all future agreements concluded by the Community;
7. Recalls that it is desirable to take the necessary initiatives to establish suitable and regular contacts between its members and those of the Israeli Parliament⁵;
8. Instructs its President to forward this resolution and the report of its committee to the Council and Commission of the European Communities.

* OJ No. C7, 12.1.1976, p.35

¹ OJ No. L 136, 28.5.1975

² OJ No. C 128, 9.6.1975, p.19

³ Article 26 of this Agreement

⁴ Article 24 of this Agreement

⁵ See para. 4 of the resolution of 14 May 1975.

15 November 1976

NOTE FROM THE PRESIDENT

to members of the enlarged Bureau

Subject: Mission by a delegation from the European Parliament to Israel

1. At the invitation of the Knesset and the Israeli Government, a delegation from the European Parliament visited Israel from 2 to 5 November 1976.

The delegation was headed by the President and included Mr Fellermaier, Mr A. Bertrand, Mr Giraud, Mr Bourdellès, Mr Blumenfeld, Mr Sandri, Mrs Dunwoody, Lord Bethell and Mr Krieg. All the political groups were represented on this delegation.

2. The visit was arranged as a follow-up to that paid by a delegation from the Knesset (led by Mr Abba Eban) to the European Parliament from 15 to 19 December 1975 in Strasbourg.

3. In the course of its visit, the European Parliament delegation had talks with Mr Ephraim Katzir, President of the State of Israel, Mr Israel Yeshayahu, President of the Knesset, Mr Yitzhak Rabin, Prime Minister, Mr Haim Bar-Lev, Minister for Commerce and Industry, Mr Teddy Kollek, Mayor of Jerusalem and Mr Eliahu Nawi, Mayor of Beersheba.

The delegation took part in a round table discussion with a delegation from the Knesset in which all the Israeli political parties were represented, and in a round table discussion with representatives of the various Israeli economic and social sectors. After visiting the Yad Vashem Monument, the arid zones research institute of the Ben Gurion University at Beersheba, a chemical plant and the region of Upper Galilee (Rosh Pina and the Levahot Habashan Kibbutz), the delegation had a meeting with Mrs Golda Meir, the former Prime Minister.

4. During its various talks, the European Parliament delegation was briefed on matters of particular concern to the Israeli authorities:

- (a) Peace in the region. For all Israelis the problem of maintaining peace is of direct importance for the very existence of the State and hence for its security and freedom. It must also be stressed that Israeli military expenditure accounts for 40% of the national budget and that the need to keep a very large proportion of the active population in permanent

readiness for war places an extremely heavy burden on the country's economy.

- (b) The Arab boycott. This is having an extremely grave impact on the economy and, from the political point of view, threatens Israel with isolation. Israel asks the European Community to take steps to put an end to this boycott, especially in the context of its own dealings with the Arab countries.
- (c) The extremely high rate of inflation and the need to guarantee full employment at all costs.
- (d) The growing trade balance deficit. Since further expansion of agricultural production cannot be expected, given the region's limited water supplies, Israel intends to concentrate its development programme on the industrial sector and, more especially, on advanced technology. Its efforts must be geared in particular to increasing its exports.
- (e) The special position of Israel (a country situated at the crossroads of Europe, Africa and the Middle East and with a massive immigrant population) means that it has to make considerable economic sacrifices in order to integrate the various immigrant groups into its economic and social system. The need to bridge the economic gap separating the rural from the urban areas and the volume of financial resources deployed in the territories under Israeli administration fully justify, in the opinion of the authorities, the requests for aid made by Israel to the European Community.

5. The President and the other members of the European Parliament delegation gave prominence to the following considerations:

- (a) relations between the Community and Israel, established as early as 1959 with the appointment to Brussels of an Israeli ambassador (permanent representative) to the Community, have steadily improved from the first trade agreement in 1964 up to the signing of the preferential trade agreement of 1970 and the cooperation agreement of 11 May 1975. The Community has thus given proof of its wish to contribute towards the solution of Israel's problems;
- (b) the Community is committed to pursuing a policy of non-discrimination, based on the principle of parallelism, with all the Mediterranean countries. It is profoundly convinced that, by pursuing this policy, it can help both to restore economic stability in the region and, more importantly, to promote measures conducive to the establishment of a real and equitable peace;

- (c) the Community (and the European Parliament in particular) has repeatedly and unequivocally declared its opposition to any form of boycott and discrimination. It will reaffirm its stand on this issue when concluding its agreements with the Arab countries;
- (d) cooperation agreements between the Community and the Mediterranean countries cannot be concluded without regard to the difficulties arising from the present economic situation or to the needs of the Community itself, especially in the agricultural sector (75% of the Community budget is appropriated to the EAGGF). In this connection, the Financial Protocol providing for a 30 m u.a. package of EIB loans to Israel has to be assessed in the light of the Community's overall programme of aid for the Mediterranean countries as a whole and seen as evidence of willingness on the part of the Community to conclude with Israel a preliminary financial cooperation agreement even though the funds involved may seem limited;
- (e) the cooperation agreement signed in May 1975 not only covers a substantial proportion of the industrial and agricultural trade between the two countries, but also includes a cooperation section that will make possible the implementation of a number of far-reaching development projects in the future. It is most important to point out that this agreement incorporates a future developments clause under which the two sides are committed to reviewing the initial results achieved with a view to improving, where necessary, their cooperation relations;
- (f) the European Parliament will make every effort to ensure that Israel is included in the list of countries for which the 'investing' European countries will guarantee investments, in line with the practice adopted in respect of certain developing countries.

On the practical level, the European Parliament delegation indicated that it would give favourable consideration to:

1. the establishment of regular contacts between Members of the Knesset and Members of the European Parliament; this would make it possible both to monitor and promote the measures laid down in the cooperation agreement and to submit recommendations to the Knesset and the European Parliament with a view to their placing resolutions before the Israeli Government and the Community Council of Ministers respectively. Such joint activity would enable the two Parliaments to associate the work of the peoples' representatives with the projects provided for by the agreement, whose further development they would be sure to foster;
2. the study, in the context of the regular meetings held between a European

Parliament delegation and a delegation from the United States Congress, of joint measures aimed at eliminating the effects of any form of boycott and discriminatory practice directed against Israel.

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It should be pointed out in conclusion that throughout its visit the European Parliament delegation was warmly and most cordially received by the Israeli authorities at all levels. The talks were conducted in a frank and open-minded spirit and were informed with a deep sense of mutual understanding and friendship.

The President and the European Parliament delegation have invited a delegation from the Knesset to visit the European Parliament in 1977.

Opinion of the Political Affairs Committee

Letter of 14 February 1977 from the chairman of the Political Affairs Committee, Mr Emilio COLOMBO, to the chairman of the Committee on External Economic Relations, Mr Gabriel KASPEREIT.

Dear Mr Chairman,

At its meeting of 14 February¹ the Political Affairs Committee discussed the outcome of the negotiation of an Additional Protocol and a Financial Protocol with the State of Israel. The committee, which had been asked to submit an opinion on this question to the Committee on External Economic Relations, has instructed me to forward to you the following comments.

The Political Affairs Committee expresses its satisfaction at the signing of these two Protocols, which have strengthened a long-standing cooperation and are in keeping with the course of action presaged by the Agreement of 11 May 1975.

The committee members were particularly interested in the context in which these protocols were concluded. Supplementing and amending the 1975 Agreement as they do, they are an integral part of it and combine with it to form a key element in the Community's Mediterranean policy. In this connection the Political Affairs Committee noted with satisfaction the parallelism between these Protocols and the similar provisions of the Agreements signed by the Community on 18 January with the Arab Republic of Egypt, the Hashemite Kingdom of Jordan and the Syrian Arab Republic.

It recalled the non-discriminatory nature of the Community's relations with all the states of that region. These relations are marked by a firm resolve to work towards that economic and social development which is a basic condition for the establishment of a true and lasting peace in the Middle East.

The Political Affairs Committee reaffirmed, however, that the principle of non-discrimination observed by the European Community should also be observed in their mutual relations by those states with which it has concluded cooperation agreements.

¹ Present: Mr Colombo, chairman; Mr Johnston, vice-chairman; Mr Lenihan, vice-chairman and rapporteur; Mr Amadei, Mr Berkhouwer, Mr Alfred Bertrand, Mr Blumenfeld, Lord Castle, Mr Covelli, Mr Faure, Mr Granelli, Mr Jahn, Sir Peter Kirk, Mr Klepsch, Mr Mitchell, Mr Patijn, Mr Prescott, Lord Reay, Mr Seefeld, Mr Sieglerschmidt, Mr Spinelli (deputizing for Mr Amendola) and Mr Zagari.

With regard to parliamentary relations between the Community and the State of Israel, the Political Affairs Committee welcomes the idea in principle and feels that regular contacts between the European Parliament and the KNESSET would help to interest the peoples concerned in a joint campaign of mutual cooperation.

(sgd) Emilio COLOMBO

OPINION

of the Committee on Agriculture

Draftsman: Mrs DUNWOODY

On 2 December 1976 the Committee on Agriculture appointed Mrs DUNWOODY draftsman.

It considered the draft opinion at its meeting of 15 and 16 February 1977 and adopted it with 12 votes in favour and 2 abstentions.

Present: Mr Houdet, chairman; Mr Ligios, vice-chairman; Mrs Dunwoody, draftsman; Mr Cifarelli, Mr Hoffmann, Mr Howell, Mr Hughes, Mr de Koning, Mr McDonald, Mr Martens, Mr Pistillo, Lord St. Oswald, Mr Vitale and Lord Walston.

Introduction

1. The Committee on Agriculture is asked to give its opinion on an Additional Protocol and a Financial Protocol to the Agreement between the EEC and Israel. These protocols were concluded in Brussels on 10 October 1976 and initialled on 10 November 1976.
2. The Agreement between Israel and the Community, concluded on 11 May 1975, provided for trade concessions on agricultural products to be granted by the Community¹. The principal questions, therefore, concerning agriculture are not an issue at present.

The Financial Protocol is concerned with funds of 30 m.u.a. to be made available for investment in Israel to develop the industrial sector.

The Additional Protocol

3. The Additional Protocol is of more direct concern to the Committee on Agriculture. Its main intention is to institute cooperation between the Community and Israel so as to contribute to the development of Israel and the harmonisation of development of economic relations of the two partners.

Article 4(d) of the Additional Protocol refers to :

'cooperation in the agricultural and fisheries sectors with a view to achieving complementarity between the two economies'.

Article 4(b) makes further reference to the sales promotion of products exported by Israel.

Article 5 provides for details of the implementation of these aims : a Cooperation Council is to define guidelines of cooperation and to be responsible for seeking ways and means of establishing cooperation in the areas laid down.

The 1975 Agreement

4. Following the enlargement of the Community, it became evident that the 1970 preferential trade agreement would need to be revised, given the size of Israel's traditional trade patterns; the United Kingdom accounts for one-third of Israel's exports to the EEC; and lower tariffs were imposed by the UK, Denmark and Ireland on Israeli goods. For example, juices were subject to a zero tariff in the United Kingdom while the CCT was 19-40%; oranges were liable to a 12% duty in the EEC after a 40% reduction in the CCT, while duties in Britain were only 5%. The United Kingdom remains Israel's most important market for citrus fruit, taking 54% of the total in 1974-1975².

¹ Protocol I, Arts. 7 - 12, Reg. (EEC) No 1274/75, O.J. No L 136, 28.5.1975, p. 10.

² In all sectors, the UK is Israel's main client, followed by Germany and the Netherlands.

Under the 1975 Agreement, the EEC reduced duties on 85% of Israel's agricultural exports to the Community. The average reduction of 40-80%, depending on the products, entered into force immediately and consisted of reductions between 60-70% on citrus and tomato juices; 80% on citrus by-products and 40-60% on fresh fruits and vegetables, limited in some cases by a calendar.

As far as fresh oranges, mandarins and clementines are concerned, there was a 60% reduction on the market of the Six and an 80% reduction on the market of the three new member countries of the Community. Though it is not written explicitly in the agreement, the evaluation is that on citrus the reduction of duties will reach 80% on 1 October 1977 in all nine countries of the Community.

Israel undertook to reduce import duties between 15 and 25% for a limited list of agricultural products from the Community.

Disappointing results of the EEC-Israel Agreement

5. One of the most important factors to be kept in mind in examining the 1975 Agreement and its Protocols is Israel's immense trade deficit. This was cut by 7.7% in 1975, to \$2.3 billion; the reduction, however, was only achieved by decreasing imports which restricted investment goods.

The first indications of the results of the Agreement which came into force on 1 July 1975 have shown that Israel's exports to the EEC have not increased as expected : 7.5% during July 1975 - March 1976, as against 7.2% to the rest of the world, which represents a reduction if inflation is taken into account (38% in 1976). The EEC's share of Israel's imports has remained the same 37.2%, while industrial exports have decreased by 3% (38% in the case of chemicals, Israel's second most important export).

Processed food products have shown a decline in comparison with 1974, and it is only in the sector of unprocessed agricultural produce that a significant increase of 20% has been achieved, though this is partly an increase in value rather than quantity¹. This underlines the continuing importance of agriculture to Israel's balance of payments, particularly as it has a very high added value.

¹ Citrus fruits	<u>1974</u>	<u>1975</u>
quantity (crates)	48 mill.	49 mill.
value \$	74 mill.	110 mill.

Trade Israel/EEC (\$ million)

	July 1974 - March 1975	July 1975 - March 1976
Imports	1464	1419
Exports	535	575
Balance	- 929	- 844

The figures clearly indicate the need for an increase in foreign investment and technological expertise to increase Israel's competitive position : tariff reductions alone will not suffice. Given the almost total dependence of Israel on outside sources of energy, export promotion must be a primary objective.

The complementary nature of Israeli and EEC agricultural production

6. Agriculture must continue to have an important role to play : while agriculture accounts for only 6% of the GNP, one-third is exported. Once again, transfers of EEC investment and technique will be as important as trade concessions.

7. In the agricultural sector, Israel presents a contrast to the great majority of countries with whom the Community has concluded agreements in the Mediterranean area. Israeli agriculture is highly developed and the cultivable area fully utilised. Agricultural production and exports could be increased but only through the application of more advanced research; the greatest potential for development is in the industrial sector.

8. Furthermore, Israel is a net importer of food : half its wheat; all other grains; a quarter of its sugar; and meat. The main exports are citrus fruits, certain vegetables and cotton. A singular and important fact is that due to the Israeli climate and product development, Israel's agricultural exports come on the European market earlier than those of other producers; they therefore do not compete with Community production, and provide reasonably priced produce at a time when few alternative sources are available. It is significant that in the first six months of 1976 exports to the EEC of the most important products, citrus fruits, showed only a slight increase¹, while those of other unprocessed agricultural products increased by 70%, reflecting Israel's role as the Community's winter greenhouse.

¹ Mainly due to increased exports to the United Kingdom, Israel's main client.

Conclusions

9. In conclusion, your draftsman would like to stress four main points :

- (a) the importance of EEC technology and investment to the improvement of Israel's commercial deficit;
- (b) the limited competition between Israeli agricultural exports and Community production;
- (c) the complementarity of production given Israel's food import requirements;
- (d) the mutual value of exchanges of technological expertise to both Israel and the EEC in the agricultural and industrial sectors.

10. The last point is of considerable importance in view of the emphasis currently being given by the Commission to the necessity to develop effective policies for the development of the Community's Mediterranean regions. In the southern regions of Italy for example, 40% of the population depends upon the agricultural produce facing competition from countries granted trade concessions under the Mediterranean Policy. There is now under way an examination of the Commission's methods to coordinate regional, social and agricultural policies so as to reduce the ever-growing gap between the rich and the poorer regions of the Community, and to improve existing basic infrastructures, particularly irrigation. Israel has developed a high level of technical capability for the improvement of agricultural infrastructures and methods for the Mediterranean climate, be it in terms of irrigation or the development of improved plant varieties. Cooperation in this area clearly could be of immense value to both sides.

I. ISRAELI EXPORTS TO THE EEC (1000\$)

	<u>1974</u>	<u>1975</u>
Agriculture	213,666	254,716
Citrus fruits	73,826	109,571
Cotton, melons, groundnuts	21,601	22,121
Processed products	86,008	74,290
TOTAL Agriculture & Industry	688,406	722,722

II. ISRAELI IMPORTS FROM THE EEC (1000\$)

	<u>1974</u>	<u>1975</u>
Agriculture	151,915	135,044
Processed products	67,662	48,448
Products for animals	32,001	39,165
TOTAL Agriculture & Industry	1,997,613	1,946,609

III. TRADE BETWEEN ISRAEL AND THE 'NINE' IN 1975 (1000\$)

	<u>Exports</u>	<u>Imports</u>
France	111,254	130,313
Italy	56,366	162,555
Ireland	2,793	8,493
Belgium	80,634	146,045
Germany	160,580	612,692
Denmark	12,101	14,180
Netherlands	128,710	165,827
United Kingdom	170,287	165,827
Luxembourg	47	618

I. PRODUCTION AND EXPORT OF CITRUS FRUITS 1975/76 (1000 tonnes) FROM MEDITERRANEAN COUNTRIES

	Total	Spain	Portugal	Morocco	Algeria	Tunisia	Israel	Cyprus	Greece	Turkey	Egypt	Gaza
<u>Clementines & mandarins</u>												
Production	1,217	610	20	135	140	30	21	2	34	110	115	-
Export	630	493	-	86	16	1	6	1	2	25	-	-
<u>Oranges</u>												
Production	6,196	1,865	130	559	400	114	1,075	90	513	500	900	50
Export	2,606	947	-	373	40	26	686	66	208	20	200	40
<u>Lemons</u>												
Production	849	203	20	10	16	18	35	30	187	250	70	10
Export	339	133	-	-	-	1	18	21	93	65	-	8
<u>Grapefruit</u>												
Production	566	4	2	16	3	-	430	59	-	12	30	10
Export	323	2	-	1	-	-	266	47	-	6	-	1
<u>Total</u>												
Production	8,828	2,682	172	720	559	162	1,561	181	734	872	1,115	70
Export	3,898	1,575	-	460	56	28	976	135	303	116	200	49

II. EXPORT FORECAST FOR 1976/77 (thousands of tonnes net)

	Total	Spain	Morocco	Algeria	Tunisia	Israel	Cyprus ¹	Greece	Turkey	Lebanon	Egypt	Gaza
<u>Clementines & mandarins</u>	676	499	118	15	3	4	1	3	30	3	-	-
<u>Oranges</u>	2,612	925	368	55	26	673	28	207	30	60	200	40
<u>Lemons</u>	340	130	-	-	1	24	7	93	70	12	-	3
<u>Grapefruit</u>	318	2	2	1	-	270	31	-	5	2	-	5
<u>Total</u>	3,936	1,556	488	61	30	971	67	303	135	77	200	48

¹ Cyprus : figures from the Cypriot delegation to C.L.A.M. (Comité de liaison de l'agrumiculture méditerranéenne)